

STATEMENT OF ROY A. BERNARDI
Assistant Secretary
Office of Community Planning and Development
U.S. Department of Housing and Urban Development



BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
SUBCOMMITTEE ON HOUSING AND COMMUNITY
OPPORTUNITY

April 24, 2002

Thank you for the opportunity to testify on the Housing Affordability for America Act of 2002. Madam Chairwoman, the efforts you and others have made to bring the need for affordable housing to the attention of Congress through legislation such as HR 3995 are very much appreciated. I would like to thank you for your demonstrated leadership, resolute voice, and compassion for the less fortunate among us. Your contributions will be sorely missed when your career in Congress draws to a close.

HR 3995 proposes some significant changes to many programs in the Office of Community Planning and Development, and to the HOME Investment Partnerships program in particular. I will address those related to HOME first.

HOME Investment Partnerships Program

The HOME Program has a demonstrated record of success in developing “deep-targeted” affordable housing with over 40 percent of all HOME-assisted rental units produced serving extremely low-income families. We believe that reforms to the HOME Program should build on the notable success the program has already achieved. We are concerned that the proposed *Production and Preservation Program*, as currently structured, and the other significant changes proposed for the HOME Program itself, particularly in regard to rent level determinations, would not help to achieve the worthy objectives of HR 3995, of providing affordable housing for extremely low-income families. We believe that some of the bill’s provisions would have unintended consequences.

The creation of a new *Production and Preservation Program* within HOME that has different requirements in such areas as rent determination, tenant contribution to rent, match, income targeting, commitment of funds, and even in the definition of who is low- or very low-income, could create significant compatibility issues with the basic HOME program and with other Federal programs, resulting in serious implementation problems. Unless these conflicting requirements are reconciled, the implementation problems will remain and projects will be delayed or found infeasible if the new program is made part of HOME or potentially if it is developed as a separate, stand-alone program.

We would urge the Committee to reconsider its proposed changes to the way in which HOME Program rents are determined. The effort made in HR 3995 to remedy lagging housing development “in certain rural counties” is understandable. However, these changes - abandoning the Fair Market Rent (FMR) standard and adopting the greater of the State or area median income as a floor for determining rents – could actually increase rents generally across the country while not ensuring that those who are the targeted beneficiaries of the legislation, extremely low- and very low-income families, will be able to afford those higher rents. For example:

- 86% of the population of metro areas and 100% of all non-metropolitan areas will have increases in maximum rent;
- Average increases in maximum rent will be 32% (or \$200) for the country as a whole;

- 63% of the increases in maximum rent will be more than 20%;
- 37% of the increases in maximum rent will be more than 40%;
- The largest increases in maximum rent will be in areas with the **least** need for affordable housing.

Some specific local examples of increases in maximum rent are contained in the following table:

Metro Area/County	2-Bedrm FY2002 FMR	Current High HOME Rent (Monthly)	Proposed High HOME Rent (Monthly)	Monthly Rent Increase
Modoc County, CA	503	503	867	364
Gilpin County, CO	678	678	1,173	495
Stamford-Norwalk, CT	1,384	1,202	1,667	465
Cedar Rapids, IA	520	520	959	439
Adams County, IL	395	395	951	556
Decatur, IL	475	475	951	476
Duluth-Superior, MN-WI	487	487	921	434
Utica-Rome, NY	495	495	882	387
Kendall County, TX	473	473	911	438
Roanoke, VA	500	500	913	413
Washington, DC-MD-VA	943	943	1,316	373

Finally, abandoning the FMR standard would make it more difficult to use housing vouchers in HOME-assisted projects and would place many HOME units out of reach of voucher holders. At the same time, the HOME program could become less attractive to developers in areas with the most affordability problems (i.e., high rent to income ratio areas), and more attractive in areas with the least affordability problems (i.e., low rent to income ratio areas) and high vacancy rates. For the U.S. as a whole:

- Approximately 39 percent of the rental stock is located in markets where the FMR currently sets the maximum limit for HOME rents. Prevailing rents are quite low relative to income in these areas and the rental vacancy rate is 12 percent;
- In markets where rents are high relative to incomes and the FMR does not now act as a cap on HOME rents, the vacancy rate is 5 percent.

HUD is eager to work with this Committee to build on its efforts and those of the Millennial Housing Commission whose report is due in May, to expand affordable housing opportunities. We are also confident that solutions to identified impediments to affordable housing development in certain rural counties can be addressed with specific adjustments to the existing HOME Program rent structure.

Many changes have already been made over the ten years that the HOME Program has been in operation in an effort to streamline the program and improve its effectiveness. The production results and the ongoing feedback we receive from housing providers would indicate that this effort has been largely successful. Indeed, one of the hallmarks of this program and an important reason for its success has been the close and continuing communication between the administrators at HUD and recipients of HOME funds and their representatives and associations. We are receptive to further improvements to the program.

Homeless Assistance Programs

Madam Chairwoman, I'd now like to address the provisions of the bill dealing with HUD's McKinney-Vento Act homeless assistance programs. On an overall basis, the homeless assistance provisions of the bill are carefully crafted and correctly recognize the important elements of current law that should be retained.

Specifically, we support the goals of reauthorization for the Supportive Housing, Shelter Plus Care, Section 8 Moderate Rehabilitation Single Room Occupancy (SRO) and the Emergency Shelter Grants programs. However, the Department will be proposing a consolidation of these programs into one that is needs-based and performance-driven. This consolidation will ensure community-level planning and decision-making. And, it will retain the fundamental components of our Continuum of Care strategy to address homelessness. We further support the provisions of the bill reauthorizing the Interagency Council on the Homeless. We are working to draft legislation to transfer the Emergency Food and Shelter Program from Federal Emergency Management Agency (FEMA) to HUD.

The Department fully supports Section 604 of the bill that continues the current requirement that at least 30 percent of appropriated funds be targeted for permanent housing projects. Similarly, we support the removal of the unrealistic caps on the use of Supportive Housing Program funding for acquisition, rehabilitation and new construction. These caps have increasingly worked to restrain our grantees' ability to generate new and rehabilitated permanent housing units for homeless individuals and families.

The Department notes bill language proposing the transfer of the costs of renewing expiring Shelter Plus Care projects and projects funded under the Permanent Housing component of the Supportive Housing Program to the Housing Certificate Fund (HCF). The Department looked at these renewals in the 2003 budget process and determined that it is preferable to address them as part of consolidated homeless funding.

Housing Opportunities for Persons with AIDS

HUD supports Section 904 of the bill that would reauthorize the Housing Opportunities for Persons with AIDS (HOPWA) program. HOPWA is the only Federal program solely dedicated to providing housing assistance to persons with HIV/AIDS and their families.

Housing provided under this program provides a basis for helping people at the lowest income levels access appropriate care and acts as a base to help maintain difficult therapies and medical regimens.

Community Development Block Grant

I would like to make several other comments on provisions of HR 3995 that would affect HUD's basic Community Development Block Grant (CDBG) program.

Section 902 (Housing Counseling programs) would require the Secretary to designate a single office within the Department to "establish, coordinate, and administrate all requirements, standards, and performance measures under programs and laws administered by the Department that relate to housing counseling, homeownership, counseling . . ." This section also specifies that the CDBG eligible activity under section 105(a)(20) of the Housing and Community Development Act of 1974 be covered by this provision. Section 105(a)(20) of the HCD Act authorizes grantees to use CDBG funds to carry out housing services, such as housing counseling. Housing counseling is an important component of the Department's rental housing and homeownership programs. However, we would caution against adopting a "one size fits all" approach that would take away the local discretion of program design and implementation from CDBG grantees, which is the cornerstone of the CDBG program. Recently, FHA revised the standards and performance measures related to the 1400 HUD-approved housing counseling agencies participating in this program. We see no need for another office within the Department to repeat this process. As you know, the Administration has requested \$35 million for a new categorical counseling program, nearly doubling the current level of funding and removing the program from the HOME block grant. We urge you to support that proposal, and we believe it will be easier and quicker to provide the funds to counseling agencies if we can operate the new program on the basis of the standards we have recently established.

Section 905 concerns the funding eligibility for secular activities carried out by religious organizations. HUD supports the involvement of faith-based organizations in our programs.

Section 906 would add a new eligibility category to the CDBG program to authorize the construction of tornado or storm-safe shelters in manufactured housing parks. This change would expand this otherwise eligible public facility to serve residents of private manufactured housing parks and HUD supports it. However, subparagraph (b) of Section 906 would authorize a set-aside from the CDBG program for fiscal year 2002 for this purpose. The Department does not support further set-asides within the CDBG appropriation.

HUD supports Section 907 of the bill that would amend Section 105(a)(13) of the HCD Act to allow the use of CDBG funds to administer renewal communities. HUD believes that such support of the Renewal Communities program will foster needed job creation and revitalization in distressed communities.

Self-Help Homeownership Opportunities Program

HUD supports the reauthorization of the Self-Help Homeownership Opportunities Program (SHOP), which has been instrumental in helping many low-income families become homeowners. The President's request to triple funding to \$65 million for SHOP in FY 2003 reflects this program's popularity and success.

Thank you again for this opportunity, and I would be happy to answer any questions that you may have.